

VZCZCXRO2586  
RR RUEHLMC  
DE RUEHLM #1589/01 2710513  
ZNR UUUUU ZZH  
R 280513Z SEP 06  
FM AMEMBASSY COLOMBO  
TO RUEHC/SECSTATE WASHDC 4351  
INFO RUCPDO/USDOC WASHDC  
RUEHNE/AMEMBASSY NEW DELHI 9984  
RUEHCG/AMCONSUL CHENNAI 6903  
RUEHLMC/MILLENNIUM CHALLENGE CORP

UNCLAS SECTION 01 OF 02 COLOMBO 001589

SIPDIS

SENSITIVE, SIPDIS

COMMERCE FOR BRYAN LOPP AND EROL YESIN  
EB/CBA FOR TIM GILMAN  
MCC FOR D NASSIRY AND E BURKE

E.O 12958: N/A

TAGS: [EINV](#) [PREL](#) [CE](#)

SUBJECT: SRI LANKA: GE KERAWALAPITIYA POWER DEAL RECEIVES  
PROVISIONAL CABINET APPROVAL

REF: COLOMBO 1425

1. (SBU) Summary: The proposal by Lakdhanavi Private Limited (Lakdhanavi) for a 300 megawatt power plant in Kerawalapitiya, described reftel, has been approved by the Cabinet of Ministers. This project will include significant US content through the sale of General Electric (GE) products and services. While Cabinet approval is a significant and welcome step, the Ceylon Electricity Board's letter of intent to Lakdhanavi suggests that Lakdhanavi will still need to push long and hard to lock in this deal. End Summary.

2. (SBU) The Chairman of the Ceylon Electricity Board sent a letter of intent to the Chairman of Lakdhanavi for the construction of the Kerawalapitiya power plant. Based on terms approved by the Cabinet of Ministers at its September 6 meeting, the letter of intent contained the following transcribed language:

[Begin text]

Cabinet of Ministers has considered a memorandum at a meeting held on 6 September 2006 and approval was granted to the following, pertaining to your above proposal.

- Evaluate and negotiate the technical and revised commercial proposal.
- To mutually agree upon the Power Purchase Agreement, Implementation Agreement and the Fuel Supply Agreement pertaining to the independent power producer (IPP) model power plant.
- Treasury to guarantee the debt of the Joint Venture Company (JVC) to be raised by it as per the proposal given.
- To extend the same Board of Investment (BOI) concessions facilities, tax holidays and duty waivers granted by the Cabinet of Ministers on March 22, 2006 in respect of Trincomalee Coal Power Plant for the project to be operated under IPP model by the JVC in terms of the BOI regulations of such JVC company under BOI law.

It is to be noted that the above approvals were granted by considering the following and subject to be within those parameters:

- Lakdhanavi Limited will float a new JVC venturing with ETF (subject to its approval), CEB EPF fund (subject its approval) and the Treasury as its equity subscribers. Lakdhanavi Ltd will act as the lead technical partner with responsibility for construction and operation.
- Debt equity ratio shall be 70:30.

- Total project cost including working capital (for operation and maintenance of the plant) and contingency shall be USD 294.8 million for which new JVC will raise debt of USD 206 million from HSBC, US Exim Bank, and Coface of France.

- Will enter into agreements with CEB for a Power Purchase Agreement (PPA) for 25 years term; with Treasury for an Implementation Agreement (IA) for 25 years; and with the Fuel supplier for a Fuel Supply Agreement (FSA) for 25 years.

- GOSL is required to guarantee the debt of JVC (USD 206.00 million).

- Plant factor and tariff structure shall be negotiated with CEB.

[End Text]

¶3. (SBU) In the letter, the Chairman of the Ceylon Electricity Board also requested the Secretary of the Ministry of Power and Energy to summon the Project Committee to evaluate and negotiate the proposals and agreements pertaining to the IPP model power plant of 300 MW to be established at Kerawalapitiya. He asked that Lakdhanavi's proposals for the various agreements be submitted to the Chairman of the Project Committee, Mr. R. J. Gunawardena, Additional General Manager (Transmission) of the Ceylon Electricity Board. The Chairman also noted the non-binding nature of his letter of intent.

¶4. (SBU) Comment: Embassy advocacy made a difference in getting Cabinet approval for this proposal. As reported reftel, Minister of Power and Energy Seneviratne claimed to have been unaware of U.S. interest in this project, and said that the U.S. interest "would have to be accommodated." Still, the project will require much negotiation and numerous agreements before construction can commence. Post will continue to assist Lakdhanavi in this process.

COLOMBO 00001589 002 OF 002

BLAKE